



EAST KENTUCKY POWER COOPERATIVE

June 16, 2004

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Harry Graves
President
Kentucky Pioneer Energy, L.L.C.
312 Walnut Street
Suite 2000
Cincinnati, Ohio 45202

RECEIVED

JUN 17 2004

PUBLIC SERVICE
COMMISSION

2003-00030

Dear Harry:

As you are aware, in an Order dated February 13, 2004, the Kentucky Public Service Commission held in abeyance, until June 1, 2004, its investigation into the commercial feasibility of the Kentucky Pioneer Energy ("KPE") Project and East Kentucky Power Cooperative's ("EKPC") need for power from the KPE Project. This was to give the Parties an opportunity to rewrite or amend the Power Purchase Agreement and Site Lease Agreement (the "Agreements") if new, mutually favorable terms could be agreed upon.

EKPC has carefully considered the restructuring of the Project proposed by KPE, the continuing project risks, and whether or not rewritten or amended Agreements would satisfy EKPC's recently accelerated power requirements, of which you are aware. EKPC believes that there are significant remaining uncertainties surrounding the KPE Project, some of which may not be within the control of either Party, which cannot, and will not, be resolved before a decision on new power supply alternatives must be made by EKPC in the very near future. EKPC no longer has the luxury of time in which to wait for the resolution of these uncertainties, and could not prudently choose to move forward with a restructured KPE Project, as a power supply resource for its member systems, with such unresolved matters outstanding.

We regret that KPE has not succeeded in completing the Project and delivering power to EKPC under the terms of the Power Purchase Agreement, and that sufficient progress on resolving the uncertainties regarding a restructuring of the KPE Project could not be achieved in time to support EKPC's short schedule for a decision on new power supply alternatives. For these reasons, we have concluded that rewritten or amended Agreements are not in the best interest of our members, and therefore decline to pursue the proposed restructuring of the KPE Project any further.

Sincerely,

David D. Drake
Manager, Business Development

C: Kentucky Public Service Commission
Mike Musulin
Kenneth C. H. Willig, Piper & Marbury, L.L.P.

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A Touchstone Energy Cooperative